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Why SpaceX and Tesla are 'value' stocks, according to this fund manager

Christopher Tsai says investors are missing out by not focusing on future earnings

By Barbara Kollmeyer FOLLOW

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Charles Schwab strategists recently warned investors against putting their money into companies making growth promises that push out far into the future.

But successful value investing requires precisely that faith, according to the president and chief investment officer of Tsai Capital, Christopher Tsai. “If you look at SpaceX and say, ‘Oh, it’s selling at a crazy multiple,’ you might be making the classical error that these companies are increasingly investing so much now, depressing earnings now, to create more value later,” he told MarketWatch in a Monday interview.

“What you really should be thinking about is what’s the base-case scenario, what’s the bear case and what’s the bull case in say, five years. Based on that, you know, and this is how we think about it,” said Tsai, whose portfolio includes stakes in Elon Musk’s companies.

The manager introduced a white paper in May framing what he said was the fourth evolutionary stage of value investing, or Value Investing 4.0. It’s a step beyond what he called the 3.0 platform/ecosystem models like that of Amazon, whose heavy investments have often depressed profits to achieve intrinsic value later.

A successful 4.0 value company meets four criteria: building an intelligence-based moat, or barrier to competitive entry; producing digital labor as its core product; operating a self-sustaining business model; and reinvesting capital into operating businesses at a high rate of return.

Christopher Tsai discussed Value Investing 4.0 at the Zurich Project 2026 forum in Switzerland. PHOTO: JOEL MINK

Tsai said he sees potential within the “deep moats” of SpaceX and Tesla — he first bought into the EV maker in early 2020. Tesla’s profitable car business helps fuel its intelligence-based businesses, such as Dojo AI and the Full Self Driving technology, he said.

“These are really the companies at the forefront, and they’re going to create, in our opinion, so much value, and people are missing that because they’re just focused on the near term,” he said.

Guessing future winners in AI and automotive intelligence will be tough, though, with Tsai assigning only a 1% to 5% likelihood of success to companies in those categories.

“The way we’re approaching this is to first be extremely selective as to what kinds of businesses we’re investing in. And to recognize the probability of success is low,” he said. But the right pick will bring “massive” upside, largely given the vast skepticism around AI, for example, that’s holding investment money back.
The portfolio is “diversified over 14 very high-quality businesses. We don’t own companies [that lack] significant competitive advantages,” he said.

Tsai’s portfolio owns what he calls AI infrastructure players — Amazon, Alphabet and Microsoft. “No matter who wins the AI race, there’s going to be more and more data, more and more traffic, and more and more compute flowing over these three cloud providers,” he said.

He also isn’t budging on some tougher bets, such as building-products company QXO, whose shares are down 34% over the past year. “It’s our experience that Brad Jacobs, the CEO, thinks in kind of decade terms, and he’s very much aligned with our vision, so we plan to be owners for a decade.”

CoStar Group is a recent addition to the portfolio, and Tsai believes, he said, that AI won’t be able to duplicate its proprietary residential and commercial data.
“The CEO, Andy Florance, has also had a very successful history of buying companies, building them and creating value for shareholders,” said Tsai. Shares are down 65% over a year following clashes with big investors around Florence’s purchase of Homes.com.

Tsai sees a win-win situation with CoStar, which he said just reported its 60th straight quarter of double-digit revenue growth. Either Florance and his team turn around the residential side of the business, or they drop it and see losses disappear, then perhaps buy back stock. “There’s a lot of optionality if Homes.com doesn’t work out.”